

25 November 2021

# Hap Seng Plantations

## Flying Colours

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9MFY21 CNP of RM125.3m is above our (83%) and consensus' (80%) estimates due to higher CPO prices. Its proposed disposal of Tawau land (c.2% of group's matured area and FFB output) at EV/Ha of RM136.2k (70% premium to historical transactions in Sabah) is positive as it: (i) unlocks value (net gain of RM23.4m or 2.92 sen/share, and (ii) saves estimated replanting capex of c.RM7-8m (avg. age of trees: 22 years). Raise FY21E CNP by 26%, but trim FY22E by 2%. Maintain OUTPERFORM with an unchanged TP of RM2.30 @ FY22E PER of 15x.

**Beat expectations.** 3QFY21 registered a core net profit (CNP) of RM50.3m (-3% QoQ; +261% YoY), bringing 9MFY21 CNP to RM125.3m (+222% YoY) which is above our (83%) and consensus' (80%) estimates due to higher-than-expected CPO prices. 9MFY21 FFB output of 428.3k MT (-7% YoY) is at 67% of our full-year estimate. Absence of DPS is within expectation.

**Results' highlight. YoY,** although FFB output fell (-7%), 9MFY21 CNP surged (+222%) on the back of higher average CPO/PK prices (+59%/+70%). **QoQ,** 3QFY21 CNP slipped (-3%) on lower CPO/PK prices (-1%/-3%) and flat FFB output.

**Positive on the proposed disposal of seven parcels of agricultural land in Tawau, Sabah to its parent company (HSCB) for RM84.9m.** The total area of c.623.8 Ha (c.2% of HSPLANT's total matured area) has a 3-year average FFB output of 14.7k MT which is c.2% of HSPLANT's total FFB output. The purchase consideration translates into EV/ha of RM136.2k, which we believe is an **extremely favorable price** given that it is at a 70% premium compared to the typical RM80k offered in Sabah. This is also consistent with HSCB's previous offer for HSPLANT's Tawau estates in May 2020 with EV/ha of RM137.5k.

Aside from unlocking the value of the land with a RM23.4m net gain on disposal (translating into an increase in BVPS of 2.92 sen), the divestment will free HSPLANT from an estimated RM7-8m replanting capex given the estates' old average tree age profile of 22 years. We expect the completion of the disposal to be swift and will factor in the changes in FY22E numbers.

**Raise FY21E CNP by 26%** on higher realized CPO price of RM4,400/MT (vs. RM4,000/MT previously) but trim FY22E CNP by 2% on lower FY22E FFB growth of 4% (vs. 6%).

**Maintain OUTPERFORM with an unchanged TP of RM2.30** based on FY22E PER of 15x, reflecting -0.5SD from mean. We think HSPLANT will likely register sequential earnings improvement in 4QFY21, fully capitalizing on higher CPO prices, making it an attractive pure Malaysian upstream play. Note that **HSPLANT's average CPO price is the highest** among planters under our coverage given its minimal forward selling policy and pure Malaysian upstream estates.

**Risks to our call** are sharp decline in CPO prices, severe labour shortage, and significant rise in fertilizer/transportation costs.

## OUTPERFORM ↔

Price: RM2.05  
Target Price: RM2.30 ↔

### Share Price Performance



KLCI	1,522.27
YTD KLCI chg	-6.4%
YTD stock price chg	13.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HAPL MK Equity
Market Cap (RM m)	1,639.4
Shares Outstanding	799.7
52-week range (H)	2.28
52-week range (L)	1.69
3-mth avg daily vol:	103,567
Free Float	13%
Beta	0.8

### Major Shareholders

Hap Seng Consolidated Bhd	74.9%
Employees Provident Fund Board	8.9%
Amanah Saham Nasional	1.8%

### Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	467.6	752.1	596.8
EBIT	110.9	255.9	162.3
PBT	108.4	253.3	161.7
<b>Net Profit (NP)</b>	<b>90.3</b>	<b>190.0</b>	<b>144.7</b>
<b>Core NP</b>	<b>69.3</b>	<b>190.0</b>	<b>121.3</b>
Consensus (CNP)	n.a.	155.7	116.8
Earnings Revision	n.a.	+26%	-2%
Core EPS (sen)	8.7	23.8	15.2
Core EPS grwth. (%)	229.6	174.3	-36.2
NDPS (sen)	7.0	14.0	9.0
BV/Share (RM)	2.15	2.24	2.33
Core PER (x)	23.7	8.6	13.5
Price/BV (x)	0.96	0.91	0.88
Net Gearing (x)	N Cash	N Cash	N Cash
Net Dvd. Yield (%)	3.4	6.8	4.4

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<b>Results Highlights</b>								
<b>FY Dec (RM m)</b>	<b>3Q21</b>	<b>2Q21</b>	<b>QoQ %</b>	<b>2Q20</b>	<b>YoY%</b>	<b>9M21</b>	<b>9M20</b>	<b>YoY%</b>
<b>Revenue</b>	<b>173.6</b>	<b>181.1</b>	<b>-4%</b>	<b>83.6</b>	<b>108%</b>	<b>476.0</b>	<b>314.3</b>	<b>51%</b>
Op Profit	70.6	63.4	11%	32.0	121%	173.8	60.2	189%
Pretax Profit	70.1	62.8	12%	31.4	123%	172.1	58.3	195%
Tax	(17.1)	(15.4)	11%	2.9	-686%	(42.4)	(4.9)	764%
<b>Net Profit</b>	<b>52.9</b>	<b>47.4</b>	<b>12%</b>	<b>34.3</b>	<b>54%</b>	<b>129.7</b>	<b>53.3</b>	<b>143%</b>
<b>Core Net Profit/(Loss)</b>	<b>50.3</b>	<b>52.1</b>	<b>-3%</b>	<b>13.9</b>	<b>261%</b>	<b>125.3</b>	<b>38.9</b>	<b>222%</b>
<b>Core EPS/(LPS) (sen)</b>	<b>6.3</b>	<b>6.5</b>	<b>-3%</b>	<b>1.7</b>	<b>261%</b>	<b>15.7</b>	<b>4.9</b>	<b>222%</b>
Net DPS (sen)	0.0	1.5	-100%	1.5	-100%	1.5	1.5	0%
EBIT	40.7%	35.0%		38.3%		36.5%	19.1%	
PBT	40.4%	34.7%		37.5%		36.2%	18.5%	
Tax	24.5%	24.5%		-9.3%		24.6%	8.4%	
<b>CPO Avg Price (RM/MT)</b>	<b>4,341</b>	<b>4,365</b>	<b>-1%</b>	<b>2,321</b>	<b>87%</b>	<b>4,187</b>	<b>2,629</b>	<b>59%</b>
<b>PK Avg Price (RM/MT)</b>	<b>2,615</b>	<b>2,709</b>	<b>-3%</b>	<b>1,382</b>	<b>89%</b>	<b>2,636</b>	<b>1,548</b>	<b>70%</b>
<b>FFB Production (MT)</b>	<b>149,279</b>	<b>148,750</b>	<b>0%</b>	<b>152,708</b>	<b>-2%</b>	<b>428,313</b>	<b>459,050</b>	<b>-7%</b>

Source: Company, Kenanga Research

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### Peer Comparison

Name	Last Price	Market Cap	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
	(RM)	(RM'm)			1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
FGV HOLDINGS BHD	1.49	5,435.7	Y	12/2021	17.4%	-2.9%	30.7%	1.9%	22.0	16.8	16.5	1.3	1.2	7.5%	3.7%	1.45	MP
GENTING PLANTATIONS BHD	6.94	6,226.6	Y	12/2021	23.2%	-9.2%	73.7%	-11.9%	26.1	15.0	17.1	1.3	1.2	8.3%	4.2%	8.40	OP
HAP SENG PLANTATIONS HLDGS	2.05	1,639.4	Y	12/2021	60.8%	-20.6%	174.3%	-36.2%	23.7	8.6	13.5	1.0	0.9	10.8%	6.8%	2.30	OP
IJM PLANTATIONS BHD	3.10	2,729.8	N	03/2022	34.6%	-13.0%	147.9%	-42.4%	22.2	9.0	15.6	1.9	1.7	19.9%	4.7%	N.A.	Not Rated
IOI CORPORATION BHD	3.77	23,452.4	Y	06/2022	13.5%	-8.4%	20.6%	-14.1%	28.1	18.2	21.2	2.3	2.2	12.4%	2.5%	4.05	MP
KUALA LUMPUR KEPONG BHD	20.80	22,420.0	Y	09/2022	-5.2%	-3.2%	-15.0%	-7.4%	13.4	15.7	17.0	1.9	1.8	11.7%	2.6%	26.50	OP
PPB GROUP BERHAD	17.32	24,639.4	Y	12/2021	18.4%	11.1%	3.7%	7.9%	18.8	18.2	16.8	1.1	1.1	6.1%	2.3%	19.40	MP
SIME DARBY PLANTATION BHD	3.88	26,833.0	Y	12/2021	39.5%	-8.0%	194.3%	-35.7%	32.2	11.0	17.1	2.0	1.8	17.2%	5.4%	4.10	MP
TA ANN HOLDINGS BERHAD	3.37	1,484.4	Y	12/2021	44.8%	-19.0%	305.4%	-42.8%	23.4	5.8	10.1	1.1	1.0	17.4%	8.9%	3.25	MP
TSH RESOURCES BHD	1.13	1,559.6	Y	12/2021	80.6%	-18.9%	162.2%	-46.4%	21.6	8.3	15.4	1.0	0.9	12.4%	3.5%	1.17	MP
UNITED MALACCA BHD	5.20	1,090.8	Y	04/2022	11.1%	-1.6%	123.1%	-25.9%	38.4	17.2	23.2	0.8	0.8	4.8%	2.9%	5.25	MP
<b>Simple Average</b>					<b>30.8%</b>	<b>-8.5%</b>	<b>111.0%</b>	<b>-23.0%</b>	<b>24.5</b>	<b>13.1</b>	<b>16.7</b>	<b>1.4</b>	<b>1.3</b>	<b>11.7%</b>	<b>4.3%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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